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¶1. Following is the 2008 Investment Climate Statement for Austria, keyed to reftel instructions:

2008 INVESTMENT CLIMATE STATEMENT -- AUSTRIA

Introduction

With the European Union's (EU) enlargements in May 2004 and January 2007, Austria solidified its central position in the EU. As an investment location, Austria, and Vienna in particular, faces growing competition from its Eastern neighbors, all of which are EU members. Budapest, Prague and Bratislava are competing directly with Vienna for foreign investors. Many have pointed out that direct transportation links among Austria's Eastern neighbors are in some places better than those running through Austria. Many view the current state of inadequate road and rail transport links to Central, Eastern and Southeastern European neighbors as a missed opportunity. The Austrian government's program includes plans to address these infrastructure gaps. On December 21, 2007, the EU's Schengen area expanded to the Czech Republic, Hungary, Slovakia, and Slovenia, removing border controls between these countries and Austria. The 2005 corporate tax cut was a major step towards remaining competitive vis-a-vis Austria's Eastern EU neighbors. The tax cut has also enticed firms to open regional headquarters in Vienna. Some 340 U.S. companies have invested in Austria and most have expanded their original investment over time.

Austria continues to offer some advantages for foreign investors, but it also presents some challenges.

Openness to Foreign Investment

Government attitude towards foreign private investment: Observers do not expect Austria's basic policies and openness towards foreign direct investment to change under the grand coalition between the Social Democratic Party (SPO) and the People's Party (OVP), which took office in January 2007 for a four-year term. The coalition program includes a promise to promote direct investment and to further strengthen Austria's attractiveness as a location for investment and headquarters for international firms. In general, the coalition program is relatively broad, reflecting the hand of both the SPO and the OVP. The need for compromise between the big center-left and center-right parties prevented the development of visionary reforms. The government will not reverse major structural and economic reforms implemented in recent years. However, the SPO insists on a more "social face" for reforms. Observers are convinced that reforms will continue, although more slowly and with greater emphasis on social and welfare reforms and less on

deregulation, liberalization and privatizations.

Strong growth is now primarily the result of favorable global trends. The Austrian government intends to pursue initiatives to raise economic growth as a means to attain full employment by 2010. These initiatives include the following: expanding and improving the road, rail, energy and telecom infrastructures; introducing Public-Private Partnership (PPP) models; improving education and training; improving R&D policies and raising R&D expenditures to 3% of GDP by 2010; continuing efforts to balance the budget over the economic cycle in line with the requirements of the EU's Stability and Growth Pact; implementing administrative reforms and streamlining the division of responsibilities among the various levels of government; and lowering income taxes by the end of the legislative period.

The government can build on the comprehensive structural reforms the previous government implemented during the 2000-2006 timeframe. These reforms helped streamline government, create a more competitive business environment, and strengthen Austria's attractiveness as a location for investment. According to many observers, in comparison to other EU member states, Austria carried out a major policy shift in 2000-2006 by pursuing a balanced budget, pension reform, privatizations, reorganizing financial market supervision and competition policy bodies, and implementing a corporate tax cut in 2005. The reforms addressed long-standing imbalances and have improved the Austrian economy's long-term growth potential.

Addressing a major concern of many businesses, the government has extended shop opening hours (shops will remain closed on Sundays) and started initiatives to raise R&D expenditures. In an effort to transfer more transportation from roads to railways, the government raised taxes on diesel and gasoline, as well as truck tolls. However, the reform agenda has lost momentum following the formation of the grand coalition government in January 2007. A legislated increase in social security contributions rules out any cuts in non-wage costs. In a controversial move, the government reversed some features of the previous government's pension reforms by extending possibilities for early retirement without cuts in pension payments. The government is still working on introducing a basic social allowance. Little or no progress has been made on health system reform, educational reform, and the increasingly prominent challenge of ensuring adequate and affordable nursing care for Austria's ageing population.

In order to balance the budget and implement tax cuts by 2010 as promised, the government must resist pressure to spend cyclical generated revenues. To remain competitive in the medium-term, the government should implement an array of innovative strategic measures, including added emphasis on the high-tech goods and services segment to transform Austria from a technology consumer to a supplier of high-tech products.

Austria has been virtually strike-free since spring 2003.

Liberalization and deregulation in the energy and telecom sectors have lowered prices for businesses. However, remaining barriers to entry and competition have resulted in only partial liberalization. Network tariffs for electricity, for example, have remained too high, according to a December 2006 study by the Austrian Federal Competition Authority.

Austria welcomes foreign direct investment that does not have a negative impact on the environment. Austria particularly welcomes those investments that create new jobs in high technology fields, promote capital-intensive industries, and have links to R&D activities, for which special tax incentives are available. Austria remains a high-tax country, but due to a 25% corporate tax rate, it has become increasingly attractive as a headquarters location. Because of tax base adjustments, experts estimate the effective corporate tax burden to be no more than 22%. Austria also offers a highly favorable provision for group taxation, unique in Europe, which allows business to offset profits and losses of group operations (requiring direct or indirect participation of more than 50%, but no other financial, economic or organizational integration) in Austria and abroad. This group taxation system offers interesting opportunities for U.S. investors, in particular

joint-venture structures, M&A transactions, headquarter companies and simple holding companies without active business, which can also benefit from the group taxation. The corporate tax cut and group taxation aim to keep Austria competitive vis-a-vis its new EU neighbors.

Under certain conditions, limited amounts of the business profits of non-corporations will be assessed at half the income tax rate to which they would regularly be subject. Austria has no wealth or net worth tax, and no trade tax (Gewerbesteuer), unlike neighboring Germany. As of July 31, 2008, the existing inheritance tax and most likely the gift tax will be abolished.

There are no formal sectoral or geographic restrictions on foreign investment. In some regions, Austria offers special facilities and services ("cluster packages") to foreign investors. For example, these can include automotive producers or manufacturers of chips, silicon, and high-tech products. Austria offers financial and tax incentives within EU parameters to firms undertaking projects in economically depressed and underdeveloped areas on Austria's eastern and southern borders. For most of these areas, eligibility for co-financing subsidies under EU regional and cross-border programs will decline under the EU's 2007-2013 financial framework from Euro 2 billion to Euro 1.3 billion. The only opposition to investment in the manufacturing sector may arise from environmental concerns.

Potential U.S. investors need to factor Austria's strict environmental laws into their decision-making process. Austria has imposed marketing bans on some agricultural biotechnology seeds despite existing EU approvals. The EU Commission is currently in a position to overturn the bans, but it is unclear whether it will act accordingly. For new varieties, the EU's legislation on the deliberate release of genetically modified organisms (GMOs) and on traceability and labeling requires Austria to allow GMO seeds in fields and in stores. However, strict liability regulations for research, production, and distribution of GMOs still apply. Under the Kyoto Protocol, Austria has made a commitment to cut its CO_2 emissions by 13% between 2008 and 2012 from its 1990 level. Austria is in the process of implementing the EU's regulatory framework on greenhouse gas emissions trading, which entered into force in 2005.

In investor surveys and international rankings, Austria consistently earns high marks for political stability, personal security, quality of life, rule of law, skill and motivation of labor, productivity and quality, health infrastructure, and mobile phone costs. However, Austria receives low marks for economic growth, tax burden, rigid labor practices, lack of risk capital financing, low innovation dynamics, restrictive immigration laws, size of the public sector, and regulatory red tape. With the 2005 corporate tax cut, the government addressed one major investment disincentive. Surveys show that Austria faces stiffer competition from Central and Eastern European (CEE) markets, as well as from the twelve new EU members, especially the four that border Austria. This competition is particularly noticeable in sectors where wage costs are decisive. The International Institute for Management Development's (IMD) 2007 World Competitiveness Scoreboard ranks Austria eleventh, up from the thirteenth position in 2006, while A.T.Kearney's 2007 Globalization Index, which measures variables such as economic integration, technological connectivity or political engagement, ranks Austria number 14, down from number 9 in 2006 (by comparison, the U.S. was seventh in 2007, the UK twelfth, and Germany twenty-second). The Index of Economic Freedom of The Heritage Foundation/Wall Street Journal ranks Austria number 25 worldwide and number 15 among the 41 European countries.

Acquisitions, mergers, takeovers, cartels: Austria's 2005 Anti-Trust Act, in effect since January 1, 2006, harmonizes Austrian anti-trust regulations with EU competition law. The independent Federal Competition Authority (FCA) and the Federal Cartel Prosecutor (FCP) are responsible for administering anti-trust laws. The FCA has not been particularly pro-active, reportedly due to personnel shortages.

The Austrian Anti-Trust Act prohibits cartels, any competitive restrictions, and abuse of a dominant market position. Companies must inform the FCA about mergers and acquisitions (M&A) concerning domestic enterprises, if combined worldwide sales exceed Euro 300 million ($411 million at the current exchange rate of $1.00 per Euro

0.73), domestic sales exceed Euro 30 million ($41.1 million), or if two of the firms involved each have worldwide sales exceeding Euro 5.0 million ($6.9 million). Special regulations apply to M&As of media enterprises. The cartel court is competent to decide on any M&A notification from the FCA or the FCP. For violations of anti-trust regulations, the cartel court can impose fines of up to the equivalent of 10% of a company's annual worldwide sales. An independent energy regulatory authority separately examines antitrust concerns in the energy sector, but also has to submit any cases to the cartel court.

European Community anti-trust regulations continue to apply and take precedence over national regulations in cases of trade between Austria and other EU member states.

Austria's 1999 Takeover Law applies to both friendly and hostile takeovers of corporations headquartered in Austria and listed on the Vienna Stock Exchange. It protects investors against unfair practices, since any shareholder obtaining a controlling stake in a corporation (30% or more in direct or indirect control of a company's voting shares) must offer to buy out smaller shareholders at a defined "fair market" price. The law also includes regulations for shareholders who passively obtain a controlling stake in a company, i.e., not by buying additional shares, but because another large shareholder has reduced his/her shareholding. A 2006 amendment to the law implementing the EU's Takeover Directive prohibits defensive action to frustrate bids. The law does not imlement the directive's breakthrough regulations, bt allows individual companies to address these i company bylaws. The Shareholder Exclusion Act f 2006 allows a primary shareholder, with at least 90% of capital stock, to "squeeze out" minority shareholders. An independent takeover commission at the Vienna Stock Exchange oversees compliance with these laws.

Screening mechanisms: Only those foreign investments with financial assistance from the Austrian government are subject to government overview. Screening ensures compliance with EU regulations, which limit such assistance to disadvantaged geographic areas.

Privatizations: The larger party in the coalition government, the Social Democratic Party, has announced it has no plans for further privatizations. As a result, there were no privatizations in 2007, whereas the previous government had privatized many public enterprises successfully. Foreign and domestic investors received equal treatment. Despite Austrian government's historical preference for maintaining a Austrian core shareholding, foreign investors have been successful in obtaining shares in strategic sectors of the Austrian economy, including the following: telecoms; Austria's largest bank, Bank Austria; the Austrian Tobacco Company; Voest-Alpine (VA), a major steel producer; and VA Tech, a metallurgy, power generation and infrastructure conglomerate. In early 2007, the U.S. investment fund Cerberus Capital Management finalized the takeover of about 90% of the shares of BAWAG P.S.K. Bank, Austria's fourth largest banking group, from its owner, the Austrian Trade Union Federation.

Treatment of foreign investors: There is no discrimination against foreign investors, but they are required to follow a number of regulations. Although there is no requirement for participation by Austrian citizens in ownership or management, at least one manager must meet residence and other legal requirements. Non-residents must appoint a representative in Austria. Expatriates are allowed to deduct certain expenses (costs associated with moving, maintaining a double residence, education of children) from Austrian-earned income. The Austrian immigration law requires permanent legal residents to take German language and civics courses. A 2005 amendment to the Austrian immigration law exempts applicants for residence permits from the German language course requirement, if they hold a university degree.

Investment incentives: Since 2007, Austria has less access to funds from various EU structural and cohesion programs, primarily regional competitiveness and employment programs. The Austrian federal, state, and local governments also provide financial incentives within EU guidelines to promote investments in Austria. Incentives under these programs are equally available to domestic and foreign investors, and range from tax incentives to preferential loans, guarantees and grants. Most of these incentives are available only

if the investment meets specified criteria (e.g., implementation of new technology, reducing unemployment, etc.). Tax allowances for advanced employee training and R&D expenditures are also available. Austria Wirtschaftsservice is the government's "one-stop shop" institution providing financial incentives. Further information, in the German language only, is available from http://www.awsg.at/portal/).

Conversion and Transfer Policies

Austria has no restrictions on cross-border capital transactions, including the repatriation of profits and proceeds from the sale of an investment, for non-residents and residents. The Euro, a freely convertible currency and the only legal tender in Austria and fourteen other Euro-zone member countries, shields investors from exchange rate risks in the entire Euro-zone.

Expropriation and Compensation

Expropriation of private property in Austria is rare and may proceed only on the basis of special legal authorization. The government can initiate it only in the absence of any other alternative to satisfy the public interest; when the action is exclusively in the public interest; and when the owner receives just compensation. The expropriation process is fully transparent and non-discriminatory toward foreign firms.

Dispute Settlement

The Austrian legal system provides an effective means for protecting property and contractual rights of nationals and foreigners. Additionally, Austria is a member of the International Center for the Settlement of Investment Disputes. The 1958 New York Convention also grants enforcement of foreign arbitration awards in Austria. There have been no recent reports of bilateral investment disputes.

Performance Requirements/Incentives

Austria is in compliance with the World Trade Organization's Trade Related Investment Measures (TRIMS) agreement. There are virtually no restrictions on foreign investment in Austria and foreign investors receive national treatment in the main. However, some requirements exist. For example, at least one manager must meet residency and other legal qualifications. Non-residents must appoint a representative in Austria.

The Austrian government may impose performance requirements when foreign investors seek financial or other assistance from the government, although there are no performance requirements to gain access to tax incentives. There is no requirement that nationals hold shares in foreign investments or that there be a technology transfer.

The U.S. and Austria are signatories to the 1931 Treaty of Friendship, Commerce, and Consular Rights. Austrian immigration law restricts the overall number of visas, but a few non-immigrant business visa classifications, including intra-company transfers/rotational workers, and employees on temporary duty, are eligible for visas with no numerical limitations. Recruitment of long-term overseas specialists or those with managerial duties is under quota controls. Austrian law defines employment-based immigrants as multinational executives/managers or similar professionals who are self-employed. The 2005 Amendment to the Austrian Immigration Law has eased the integration policy requiring immigrants to attain a minimum level of competence in the German language. Under the amendment, previous education (university degree) will automatically fulfill the integration requirement. Austria cut annual immigration quotas for 2006 from 7,500 to 7,000, largely at the expense of "key workers/managers" category. In 2007, the overall number of immigration slots decreased further to 6,500. However, during 2007, the quota for key managers had to be increased by some 300 slots to meet rising demand because of strong economic growth. Immigration quotas for 2008 have been raised to 8,050, with the new quotas again benefiting the visa category for key managers.

Right to Private Ownership and Establishment

Foreign and domestic private enterprises are free to establish, acquire, and dispose of interests in business enterprises, except for in some infrastructure and utilities, and in a few state monopolies, such as gambling. However, through privatizations, the government may gradually open up some of these industries to private investment as well. For example, in recent years, the Austrian government implemented legal changes to allow private radio and private terrestrial TV; dismantled the postal monopoly for wire-transmitted voice telephony and infrastructure; and liberalized the electricity and gas markets. In 2006, in line with EU regulations, the government privatized 49% of its postal company. However, by law, federal and state governments maintain at least a 51% share in all electricity providers. In most business activities, the law permits 100% foreign ownership. Foreign direct investment is restricted only when competing with monopolies and utilities. Licensing requirements, such as those in the banking and insurance sectors, apply equally to domestic and foreign investors.

Protection of Property Rights

The Austrian legal system protects secured interests in property. The law recognizes mortgages, if recorded in the land register and if the underlying contracts are valid. For any real estate agreement to be effective, owners must register with the land registry, which requires approval of the land transfer commission or the office of the state governor. The land registry is a reliable system for recording interests in property, and any interested party has access to it.

Austria has effective laws to protect intellectual property rights, including patent and trademark laws; a law protecting industrial designs and models; and a copyright law. Austria is a party to the World Intellectual Property Organization (WIPO) and several international property conventions, including the European Patent Convention, the Patent Cooperation Treaty, the Universal Copyright Convention, and the Geneva Treaty on the International Registration of Audiovisual Works. Since both the United States and Austria are members of the "Paris Union" International Convention for the Protection of Industrial Property, American investors are entitled to the same protection under Austrian patent legislation as are Austrian nationals. Amendments in 2005 and 2006 to the Austrian Patent Act strengthened protection of patents from innovative enterprises, particularly through more efficient and transparent implementation procedures. One can file objections only after authorities have granted the patent, and the right to receive information from authorities has been extended.

Austria's copyright law is in conformity with EU directives on intellectual property rights and grants the author the exclusive rights to publish, distribute, copy, adapt, translate, and broadcast his/her work. Infringement proceedings, however, can be time-consuming and complicated. The Austrian Copyright Act also regulates copyrights of digital media (restrictions to private copies), works on the Internet, protection of computer programs, and related damage compensation. In line with EU requirements, Austria also has a law against trade in counterfeits. The Austria film and music industry lobby groups complain regularly about high rates of piracy in their fields. In 2006, Austrian customs authorities confiscated pirated goods worth Euro 10.4 million ($14.2 million), a sharp decline compared to 2005.

Transparency of the Regulatory System

Austria's legal, regulatory, and accounting systems are transparent and consistent with international norms. The government usually publishes proposals for new laws and regulations in draft form for public comment.

The Austrian government has made some progress in streamlining its complex and cumbersome permit and paperwork requirements for business licenses and permits. The government maintains that it has reduced the time necessary to obtain permits to about three months, except for large projects requiring an environmental impact

assessment. The "one-stop shop" for a business permit, which the government implemented in 2002, does not include plant and building permits. These simplified procedures should accelerate permit procedures, but unpredictable and inflexible bureaucratic rules can still be a problem. The government has plans to reduce the administrative cost burden for companies by 25% until 2010 by streamlining and cutting legal regulations and firms' data collection and information obligations.

The government applies tax and labor laws uniformly, as well as health and safety standards. The government thus does not influence the allocation of investments amongst sectors. The Austrian investment climate has become more conducive for business since Austria became a member of the EU.

Efficient Capital Markets and Portfolio Investment

Austria has modern and sophisticated financial markets. All financial instruments are available. Foreign investors have access to the Austrian market without restrictions. Austria has a highly developed banking system with worldwide correspondent banks, and representative offices and branches in the United States and other major financial centers. Large Austrian banks also have a huge network in many of the fourteen new EU members and other countries in Central and Eastern Europe (CEE) and in Southeastern Europe (SEE). Austrian banking groups dominate CEE/SEE banking markets. Six out of the seven largest Austrian banks hold sizeable investments in CEE/SEE. Three of them are among the five largest banking groups in the area. Total assets of Austria's five largest banking groups (Bank Austria Creditanstalt (BA-CA), Erste Bank, Raiffeisen Zentralbank (RZB), Bank fuer Arbeit und Wirtschaft und Oesterreichische Postsparkasse (BAWAG P.S.K.), and Oesterreichische Volksbanken) amounted to approximately Euro 570 billion ($781 billion) in 2006, representing 71% of Austria's total bank assets.

The Vienna Stock Exchange (VSE) is connected to Xetra, Frankfurt's electronic trading system, so traders worldwide have on-screen information and direct access to all stocks listed in Vienna. Listed companies must publish quarterly reports. As of November 1, 2007, the VSE's Unregulated Third Market will no longer be covered by the Stock Exchange Act, but considered a Multilateral Trading Facility (MTF), operated by the VSE. This change is in line with the EU's Markets in Financial Instruments Directive (MiFID), which differentiates only between regulated markets and MTFs. Companies and investors have to be aware that the operation of an MTF is not part of exchange trading and therefore the requirements of the Stock Exchange Act regarding financial instruments admitted to trading on a regulated market (especially obligations imposed on issuers) do not apply to the financial instruments traded on an MTF. However, the Third Market Rules of the VSE will apply.

In pursuing its idea of establishing a regional "Central European Stock Exchange" alliance, the VSE, as leader of a consortium of Austrian and Hungarian investors, acquired a majority share in the Budapest Stock Exchange and has signed a cooperation agreement with the Zagreb Stock Exchange, as well as MoUs prompting closer cooperation with stock exchanges in Banja Luka, Belgrade, Macedonia, Montenegro, Sarajevo and Ukraine. The VSE also publishes a Southeast Europe Traded Index (SETX), which contains 20 blue chip stocks listed on the stock exchanges of Bucharest, Ljubljana, Sofia and Zagreb, and a number of county-specific CEE/SEE indices, including for Russia.

Criminal penalties for insider trading, money laundering and terrorist financing exist. The Austrian Financial Market Authority (FMA), similar to the U.S. Securities and Exchange Commission, is responsible for policing irregularities on the stock exchange and for supervising banks, insurance companies, securities markets, and pension funds. However, several recent scandals in the financial sector have raised questions about the effectiveness of regulations and their execution. Subsequently, the government implemented legal changes to reform the supervisory system, strengthening the role of the Austrian National Bank vis-a-vis the FMA in the supervisory system.

Austria's venture capital market is still underdeveloped. The market, which has been flat since it peaked in 2000, started to

recover in 2005 and continued to grow in 2006, but not as fast as the European venture capital market. The volume of private equity and venture capital raised in Austria during 1997-2006 was Euro 1.7 billion ($2.3 billion), according to the Austrian Private Equity and Venture Capital Organization (AVCO). After a doubling in 2005, compared to 2004, fund raising rose again almost 30% to Euro 279 million ($382 million) in 2006. Figures for 2007 are not yet available.

The legal, regulatory, and accounting systems are transparent and consistent with international norms. Austrian regulations governing accounting provide U.S. investors with improved and internationally standardized financial information. In line with pertinent EU regulations, listed companies must prepare their consolidated financial statements according to the IAS/IFRS (International Financial Reporting Standards). For firms with annual sales exceeding Euro 400,000 ($548,000), the new Austrian Enterprise Code, which replaced the Austrian Business Code on January 1, 2007, includes detailed accounting regulations. The new Code of Corporate Governance, in effect since January 1, 2006, requires listed companies to comply or explain why they are not following it.

Political Violence

There have been no incidents of politically motivated damage to foreign businesses. Civil disturbances are extremely rare.

Corruption

The Austrian Criminal Code contains penalties for bribery, including a fine of up to Euro 500 ($685) per day for up to 360 days or up to three years imprisonment for the payer of a bribe. The recipient of a bribe faces up to five years imprisonment. Under the Criminal Code, any person who bribes a civil servant, a foreign official, or a manager of an Austrian public enterprise is subject to criminal penalties. Austria has ratified the OECD Anti-Bribery Convention, which entered into force in July 1999. Corresponding criminal code legislation, in place since summer 1998, also prohibits tax deductibility for bribes. To implement the United Nations Convention against Corruption (UNCAC), which Austria ratified January 11, 2006, the Austrian government recently tightened the Criminal Code's corruption regulations and established a special central department of public prosecution with Austrian-wide authority for corruption cases. The OECD's 2006 report on corruption recommended that Austria strengthen the tax authorities' limited capacity to detect illicit payments and to broaden the income tax guidelines' restrictive interpretation of the foreign bribery offense. The Law on Responsibility of Associations, in force since January 1, 2006, introduced criminal responsibility for legal entities and partnerships. The law covers all criminal offences, including corruption, money laundering, and serious tax offences that are subject to the Tax Offences Act. Fines pursuant to the new law can rise to as much as 180 daily rates, with one daily rate equal to one-360th of yearly proceeds, but not less than Euro 50 ($69) and not more than Euro 10,000 ($13,700). Transparency International's 2007 Corruption Perceptions Index ranks Austria number 15, down from number 11 in 2006, due to a lack of awareness of corruption (By comparison Germany is 16th, and the U.S. 20th).

Bilateral Investment Agreements

Austria has bilateral investment agreements in force with Albania, Algeria, Argentina, Armenia, Azerbaijan, Bangladesh, Belarus, Belize, Bolivia, Bosnia-Herzegovina, Bulgaria, Cape Verde, Chile, China, Croatia, Cuba, Egypt, Estonia, Ethiopia, Georgia, Hong Kong, Hungary, India, Iran, Jordan, Kuwait, Latvia, Lebanon, Libya, Lithuania, Macedonia, Malaysia, Malta, Mexico, Moldova, Mongolia, Montenegro, Morocco, Oman, Paraguay, Philippines, Poland, Romania, Saudi Arabia, Serbia, Slovenia, South Korea, South Africa, Tunisia, Turkey, Ukraine, United Arab Emirates, Uzbekistan, Vietnam, and Yemen.

Austria has signed agreements with Cambodia, Guatemala, Namibia and Zimbabwe, but the agreements have not yet entered into effect. An agreement with North Korea is in initial stages of discussion.

Until new agreements take effect, the existing agreements with the former Czechoslovakia continue to apply to the Czech Republic and Slovakia, and that with the former Soviet Union to Russia and Tajikistan. Austria and Russia are negotiating a new agreement. Under all these agreements, if parties cannot amicably settle investment disputes, a claimant submits the dispute to the International Center for Settlement of Investment Disputes or an arbitration court according to the UNCITRAL arbitration regulations.
The U.S. and Austria are parties to a bilateral double taxation treaty covering income and corporate taxes, which went into effect on February 1, 1998. Another bilateral double taxation treaty, covering estates, inheritances, gifts and generation-skipping transfers, has been in effect since 1982.

OPIC and Other Investment Insurance Programs

OPIC programs are not available for Austria. Austria is a member of the Multilateral Investment Guarantee Agency (MIGA).

Labor

Austria has a highly educated and productive labor force of approximately 4.3 million people, of whom 3.7 million are employees and 600,000 are self-employed or farmers. Austria's labor market is more rigid than that of the U.S., but more flexible than markets in some other EU member states. Starting January 1, 2008, the government introduced important work hour flexibility, including allowing firms to increase the maximum regular time hours from 40 to ¶50. In special cases and including overtime, work hours can be raised up to 60 hours per week for a maximum of 24 weeks annually. However, these 24 weeks can only be in 8-week segment, with at least two weeks break between each 8-week slot.

Depending on labor demand, government policies limit the number of foreign workers to 8-10% of the salaried workforce. In 2007, the number of guest workers, predominantly from the former Yugoslavia and Turkey, averaged 413,000. As part of the 2004 EU enlargement, Austria adopted a 7-year transition period vis-a-vis eight of the ten new EU members (except Cyprus and Malta) before fully allowing free movement of labor. In May 2006, the Austrian government extended the restrictions for another three years, after which the EU Commission can approve a further extension for two years. For new EU members Bulgaria and Romania, which joined the EU on January 1, 2007, Austria adopted the same 7-year transition period. Exemptions for the recruitment of specialists or managers from all twelve new EU members apply. Recently, a shortage of qualified labor in specific industrial sectors sparked a discussion about shortening the transition period for laborers from the new EU members.

Compared to other EU countries, Austria had a relatively low unemployment rate of 4.3% in 2007. The 2008/09 forecasts call for no change in the 4.3% unemployment rate, assuming real economic growth of 2.2-2.4% in 2008 and 2.0-2.5% in 2009. Medium-term forecasts project no significant change in the unemployment rate through 2011. Analysts expect no potential labor market shortages in the medium term. While demographic trends indicate little growth in the labor force over the next few years, factors such as industrial restructuring, productivity gains, increased participation of women and older employees in the workforce, gradual phase-out of early retirement, efforts to reduce civil service employment and moderate economic growth rates of around 2.5% will help guarantee sufficient labor supply. Additional immigration, including from EU member states, will be necessary to balance the impact of low birth rates on the overall labor supply. Without additional immigration, Austria's labor supply will decline 15% by ¶2015. Long-term population estimates indicate a slight increase in the working age population (15-60 years) to 5.27 million by 2015, up from 5.18 million in 2007, but then a decline to 5.20 in 2020 and further to 4.93 million in 2030.

In general, skilled labor is available in sufficient numbers. However, regional shortages of highly specialized laborers in specific sectors, such as systems administration, metalworking, healthcare, and tourism, may occur. Data for 2006 indicate that

strong economic growth and the government's labor market policy helped to exceed the EU goals for 2010 of a labor market participation rate of 70% (now 70.2%) and for women of 60% (now 63.5%). However, Austria has not yet reached the 2010 EU goal of 50% for workers aged 55-64, but the percentage is increasing (now 35.5%). The government introduced new regulations requiring recipients of unemployment benefits to be more flexible regarding which jobs they would accept. Companies hiring workers age 50 and above are eligible for financial bonuses, but face penalties for laying off workers within this age group.

Austrian social insurance is compulsory and comprises health insurance, old-age pension insurance, unemployment insurance, and accident insurance. Employers and employees contribute a percentage of total monthly earnings to a compulsory social insurance fund. Although EU requirements encourage greater job flexibility, various Austrian laws closely regulate terms of employment. These include working hours, minimum vacation time (five weeks), holidays, maternity leave, statutory separation notice, protection against dismissal, and an option for parents with children under the age of seven to choose part-time work for several years. The latter regulation only applies to parents working for companies with at least 20 employees. The severance pay system aims to enhance worker flexibility by providing employees the right to carry their accrued entitlements with them to subsequent jobs. Ongoing issues, which could seriously affect the social insurance system, are the immense shortage of nursing personnel to care for the fast growing number of elderly people and the lack of funding for available nursing personnel, which could eventually lead to a rise in social insurance contributions.

Since World War II, labor-management relations have generally been harmonious in Austria, as reflected in extremely low strike figures in past decades. No major work stoppages occurred in 2005, 2006 or ¶2007. About 36% of the work force belongs to a union. The Austrian Trade Union Federation is trying to recover from a major financial scandal, and will therefore probably temper short-term wage and benefit demands.

Collective bargaining revolves mainly around wage adjustments and fringe benefits. Existing legal provisions stipulate a maximum workweek of 40 hours, but collective agreements also provide for a workweek of 38 or 38.5 hours per week for more than half of all employees. Starting in 2008, the government introduced additional flexibility allowing collective agreements to stipulate a maximum workweek of 50 hours. The government also transferred responsibility for agreements on flextime or 4-day work weeks to the company level. Part time employment is high in Austria: 41% of female workers and 7% of male workers have part time jobs.

Foreign Trade Zones/Free Ports

Austria has no foreign trade zones.

Foreign Direct Investment Statistics

The net inflow of new foreign direct investment (FDI) in 2006 reached Euro 1.7 billion ($2.4 billion), much less than the 2005 figure of Euro 13.3 billion ($17.9 billion). A high inflow of new FDI in 2006 was largely offset by very large disinvestment. New FDI in the first half of 2007 amounted to Euro 12.2 billion ($16.7 billion). The value of FDI stock in Austria was about Euro 58.9 billion ($80.6 billion) at the end of 2006 and an estimated Euro 72.8 billion ($99.8 billion) by mid-2007.

In 2006, U.S. investment accounted for about 9% of total FDI in Austria. This represented a drop from 12% of total FDI in Austria in 2005. The decline in U.S. FDI was primarily due to the sale of the Austrian Western Wireless International subsidiary, the mobile phone operator tele.ring. However, the 2007 Cerberus takeover of Austria's fourth largest bank, BAWAG P.S.K., the takeover of the Moeller Group, a leading supplier of electrical components and industrial controls, by Eaton Corp. in early 2008 and other new FDI by U.S. companies will drive up U.S. FDI in Austria to a new record total of more than Euro 11 billion ($15 billion) and should move the U.S. up again to the number two position among foreign investors in

Austria.

At Euro 4.1 ($5.6 billion), the flow of Austrian direct investment abroad in 2006 was lower than in 2005, but continued on an impressive level. In the first half of 2007, FDI abroad was a record Euro 14.3 billion ($19.5 billion). This raised the value of Austrian direct investment stock abroad to about Euro 59.6 billion ($81.6 billion) at the end of 2006 and an estimated Euro 73.9 billion ($101.2 billion) by mid-2007.

Note: Figures converted at the 2007 annual average exchange rate of $1.00 for Euro 0.73.
Source: Austrian National Bank.

Austria's International Investment Position (EUR billion)

Year	2005	2006 (1)	2007 (2)
FDI in Austria	58.9	60.6	72.8
Austrian FDI Abroad	55.5	59.6	73.9

Footnotes:
(1) preliminary figures;
(2) first half year, preliminary figures.

FDI in Austria - Source Country Breakdown 2005
(share of total in percent)

U.S.	12.2
Germany	38.2
Netherlands	9.5
U.K.	8.0
Switzerland/Liechtenstein	7.9
Denmark	3.1
France	2.8
Japan	2.0
Italy	1.7
All other countries	14.6

FDI in Austria - Industry Breakdown 2005
(Euro billion)

Mining and energy	717
Metals, machinery	1,830
Vehicles	376
Electrical engineering, electronics	1,614
Petroleum, chemicals	3,302
Paper, wood	1,374
Food, drink, tobacco	2,643
Building and allied trades	711
Trade	10,794
Transport, communication	2,121
Banking, insurance, finance	6,309
Real estate, business related services	26,571
Other industries	512
Total	58,874

Austrian FDI Abroad - Destination Country
Breakdown 2005 (share of total in percent)

U.S.	3.9
Germany	12.7
Czech Republic	8.9
Switzerland/Liechtenstein	8.3
Netherlands	7.5
Hungary	7.0
U.K.	5.7
Poland	5.3
Romania	5.1
Croatia	4.2
Slovakia	3.6
Slovenia	2.2
Italy	2.0
All other countries	23.6

Austrian FDI Abroad - Industry Breakdown 2005 (Euro billion)

Mining and energy	1,172
Metals, machinery	1,687
Electrical engineering, electronics	1,131
Petroleum, chemicals	4,867
Paper, wood	1,152
Food, drink, tobacco	916
Building and allied trades	2,270
Trade	8,775
Transport, communication	1,220
Banking, insurance, finance	14,935
Real estate, business related services	15,960
Other industries	1,391
Total	55,476

List of Major Foreign Investors:

More than 340 U.S. firms hold investments in Austria, which range from simple sales offices to major production facilities. The following is a short list of U.S. firms holding major investments in Austria.

American Express Bank Ltd.
Baxter International Inc.
Capital Research and Management Company
Cerberus Capital Management
Cisco Systems, Inc.
Citibank Overseas Investment Corp.
The Coca-Cola Company
CSC Computer Sciences Corporation
Deloitte & Touche LLP
Eaton Corp.
Electronic Data Systems Corp.
Exxon Corporation
General Electric Capital Corporation
General Electric Company
General Motors Corp.
Harman International Industries Inc.
Hewlett-Packard Company
Honeywell Inc.
IBM World Trade Corp.
ITT Fluid Technology Corp.
Johnson & Johnson Int.
Johnson Controls Inc.
Kraft Foods International, Inc.
Lear Corporation
Lem Dyn Amp
McDonald's Corporation
Marriott International, Inc.
Mars Inc.
MeadWestvaco Corp.
Merck & Co., Inc.
Modine USA
Otis Elevator Co.
Pioneer Hi-Bred International Inc.
PricewaterhouseCoopers LLP
PQ International Inc.
Quintiles Transnational Corp.
Schindler Elevator Corp.
Starwood Hotels and Resorts Worldwide, Inc.
Toys"R"Us, Inc.
UGI Corporation
United Global Com, Inc.
Unysis Corporation
Verizon Information Services Inc.
Western Union
Worthington Cylinder Corp.
York International
Xerox Corporation

The following is a brief list of firms headquartered in countries other than the U.S., holding major investments in Austria.

Alcatel Holding, Netherlands
Allianz AG, Germany
Amer, Finland
Asea Brown Boveri, Switzerland
Assicurazioni Generali, Italy
Aventis, Germany
Axel Springer Verlag, Germany
BASF, Germany
Bayer AG, Germany
Bayerische Motorenwerke (BMW), Germany
Bombardier, Canada
Bosch Robert AG, Germany
Borealis, Denmark
BP Amoco, UK
DaimlerChrysler, Germany
Detergenta Investment, Germany
Deutsche Telekom, Germany
DM Drogerie Markt, Germany
Electricite de France, France
Electrolux, Sweden
Epcos AG, Germany
Ericsson, Sweden
Flextronics International, Singapore
Fomento de Construcctiones & Contratas, Spain
Heineken, Netherlands
H&M, Netherlands
Infineon, Netherlands
Japan Tobacco, Japan
Kone Corp., Finland
Koramic, Belgium
Liebherr, Switzerland
Magna, Canada
MAN, Germany
Metro, Germany
Mondi Europe, Luxembourg and UK
Nestle S.A., Switzerland
NKT Cables, Denmark
Novartis, Switzerland
Nycomed Holding, Denmark
Philips, Netherlands
Plus Warenhandel, Germany
RENO, Germany
REWE, Germany
RWE, Germany
Sappi Ltd, South Africa
Schlecker, Germany
Shell Petroleum N.V., Netherlands
Siemens, Germany
Smurfit Group, Ireland
Solvay et Cie, Belgium
Sony, Japan
Sueddeutscher Verlag, Germany
Svenska Cellulosa Ab (SCA), Sweden
Unibail-Rodamco, France-Netherlands
UniCredit Group, Italy
Unilever N.V., Netherlands
Voith, Germany
Westdeutsche Allgemeine Zeitung (WAZ), Germany

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